



FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Years Ended
December 31, 2024 and 2023

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2024 AND 2023

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

LINCOLN AVENUE WATER COMPANY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lincoln Avenue Water Company

Opinion

We have audited the accompanying financial statements of Lincoln Avenue Water Company (a California corporation), which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Avenue Water Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lincoln Avenue Water Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lincoln Avenue Water Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that,

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lincoln Avenue Water Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lincoln Avenue Water Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Schedule on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Egan & Egan

September 3, 2025

LINCOLN AVENUE WATER COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current Assets		
Cash	\$ 2,049,905	3,106,243
Cash, designated	1,996,666	1,711,952
	<u>4,046,571</u>	<u>4,818,195</u>
Accounts receivable	480,984	415,927
Other receivables	39,251	137,333
Material and supplies	70,771	97,207
Prepaid expenses	184,024	95,504
Total current assets	<u>4,821,601</u>	<u>5,564,166</u>
 Utility plant and equipment, net	 19,738,129	 18,853,914
 Water rights, net	 9	 8
	<u>24,559,739</u>	<u>24,418,088</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable	\$ 160,277	313,432
Accounts payable	143,099	268,785
Accrued liabilities	201,651	203,309
Customer deposits	415,405	401,760
Other deposits	3,445	6,544
Total current liabilities	<u>923,877</u>	<u>1,193,830</u>
 Long-term liabilities		
Notes payable, net of current portion	-	157,518
Total liabilities	<u>923,877</u>	<u>1,351,348</u>
 Stockholders' equity		
Common stock, appurtenant	362,963	342,803
Common stock, nonappurtenant	20,660	21,220
Retained earnings	23,252,239	22,702,717
Total stockholders' equity	<u>23,635,862</u>	<u>23,066,740</u>
	 \$ <u>24,559,739</u>	 <u>24,418,088</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Water sales	\$ 3,604,649	2,883,162
Water service charge	1,693,696	1,678,697
Water quality cost reimbursement	459,986	999,899
Late fees and other charges	62,985	59,710
Water connection and other fees	45,450	25,800
Total operating revenues	<u>5,866,766</u>	<u>5,647,268</u>
OPERATING EXPENSES		
Distribution	3,414,125	2,679,272
General	800,010	694,593
Administrative	746,985	740,568
Depreciation	701,225	648,774
Total operating expenses	<u>5,662,345</u>	<u>4,763,207</u>
Income from operations	<u>204,421</u>	<u>884,061</u>
OTHER REVENUES (EXPENSES)		
Stock transfer and lost certificate fees	20,400	20,200
Interest income	89,023	73,752
Nonoperating revenue, reserve for catastrophic loss	200,463	199,500
Miscellaneous income, net	48,388	271,761
Interest expense	(13,173)	(19,569)
Total other revenues	<u>345,101</u>	<u>545,644</u>
Net income	<u>\$ 549,522</u>	<u>1,429,705</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	Common Stock Appurtenant 20,000 Shares Authorized		Common Stock Non-Appurtenant 20,000 Shares Authorized		Retained Earnings	Total Equity
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
As of December 31, 2022	3,926	309,763	2,194	21,860	21,273,012	21,604,635
Transfer of shares	64	640	(64)	(640)		
Purchase of shares	9	32,400				32,400
Net income					1,429,705	1,429,705
As of December 31, 2023	3,999	342,803	2,130	21,220	22,702,717	23,066,740
Transfer of shares	56	560	(56)	(560)		
Purchase of shares	3	19,600				19,600
Net income					549,522	549,522
As of December 31, 2024	<u>4,058</u>	<u>362,963</u>	<u>2,074</u>	<u>20,660</u>	<u>23,252,239</u>	<u>23,635,862</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>549,522</u>	<u>1,429,705</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	701,225	648,774
Changes in assets and liabilities:		
Receivables	33,025	(169,709)
Materials and supplies	26,436	(31,136)
Prepaid expenses	(88,520)	(8,449)
Accounts payable	(125,686)	143,445
Accrued liabilities	(1,658)	9,062
Deposits	10,546	19,044
Total adjustments	<u>555,368</u>	<u>611,031</u>
Net cash provided by operating activities	<u>1,104,890</u>	<u>2,040,736</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of utility plant	<u>(1,585,440)</u>	<u>(1,322,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(310,673)	(304,255)
Sales of shares	19,600	32,400
Net cash used by financing activities	<u>(291,073)</u>	<u>(271,855)</u>
Net (used) increase in cash	(771,623)	446,412
CASH, Beginning of year	<u>4,818,195</u>	<u>4,371,783</u>
CASH, End of year	<u>\$ <u>4,046,572</u></u>	<u><u>4,818,195</u></u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations - The Lincoln Avenue Water Company ("the Company") is a California stock water company exempt from tax pursuant to Section 501(c)(12) of the Internal Revenue Code. The Company was incorporated in 1896 to provide water to residents of certain parts of Altadena, and an unincorporated area of the County of Los Angeles, California. As a mutual-owned water utility, its shareholders are the recipients of water from its distribution system.

(b) Cash - The Company considers cash and short-term investments of three months or less to be cash. From time to time, the Company may have operating cash balances in checking accounts maintained in financial institutions that are above FDIC insured limits per institution. Cash includes amounts collected and reserved for catastrophic losses.

(c) Accounts Receivable - Management determined that an allowance for credit losses of \$11,000 is required at December 31, 2024 and 2023. Accounts are specifically reviewed to determine if a collectability problem exists. Amounts due become a lien on the property. Thus, the majority of the accounts receivable are collateralized by the stock holding.

(d) Materials and Supplies - Materials and supplies are used for the maintenance of pipes and pumping equipment and are stated at the lower of cost or market, using the first-in, first-out method. Materials and supplies include pipes, supplies and meters.

(e) Depreciation - Depreciation is calculated over estimated useful lives using the straight-line method as follows:

Furniture and fixtures	5	-	10
Vehicles and equipment	3	-	10
Wells, tunnels and reservoirs	10	-	70
Water distribution systems	20	-	50
Buildings and improvements	10	-	15

The cost of additions and betterments, which benefit future periods, are capitalized. The cost of repairs and maintenance are expensed as incurred.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by Management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

(f) Income Taxes - The Lincoln Avenue Water Company is organized as a capital stock mutual water company and is exempt from Federal income tax pursuant to Section 501 (c)(12) of the Internal Revenue Code.

(g) Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Revenues- Water sales are billed on a monthly cyclical basis. The delivery of water fulfills the Company's performance obligation.

Water billing includes a monthly amount to fund a reserve in the event of an uninsured catastrophic loss to the Utility Plant. Amounts collected are required to be used for these purposes and maintained in a separate bank account.

(i) Water rights - Water rights of \$138,402 before amortization represent surface and groundwater rights.

(j) Assessments - The Board of Directors may assess the stockholders for the installation, depreciation, maintenance, betterment and operation of the pipeline and water system owned by the Company.

(k) Concentration of credit risk - The accounts receivable are due from individuals and business located in a specific geographic area. The collection of these receivables may be impacted by economic conditions in this area.

(l) Contingencies - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

(m) Subsequent events - The Company has evaluated subsequent events through the date at which the financial statements were available to be issued which was September 3, 2025.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2024</u>	<u>2023</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,532,038	1,116,918
Reservoirs, roads and sumps	9,291,450	8,873,146
Rental Property	15,538	15,538
Pipelines	14,505,964	13,707,223
Treatment plants	1,371,199	1,340,674
Wells	2,196,550	2,196,550
Pumping, booster and chlorinator plants	1,112,667	1,013,412
Machinery and tools	756,726	756,726
Automobiles and trucks	490,473	461,817
Furniture, fixtures and equipment	1,306,257	1,232,765
Meters	1,030,126	1,372,753
Total property, plant and equipment	33,625,885	32,104,419
Less: accumulated depreciation	(13,887,756)	(13,250,505)
Net property, plant and equipment \$	<u>19,738,129</u>	<u>18,853,914</u>

NOTE 3 – NOTES PAYABLE

On April 6, 2020, the Company obtained a multiple advance term promissory note providing a maximum borrowing of \$1,500,000. The Company's revenues are security for the notes. The notes bear interest at the one month LIBOR rate plus 1.750% at the time of borrowing. The notes require the payment of monthly principal and interest over sixty months with the final payment due on June 20, 2025. The loans bear interest ranging from 2.65% to 3.1% with total monthly payments of approximately \$27,000.

NOTE 4 - SOURCE OF SUPPLY

The Company obtains the majority of its water from local deep wells and its surface water treatment facility. This water must meet Federal and State drinking water standards. This water does not meet these standards at this time and must be treated to remove contaminants. Under an agreement with Cal Tech/NASA, the Company is reimbursed for the cost of treating this ground water. In the event this agreement did not exist the Company would be required to purchase imported water.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE 4 - SOURCE OF SUPPLY, continued

The Company purchases its imported water from a Special District, Foothill Municipal Water District ("Foothill") which sells water it purchases from the Metropolitan Water District. Foothill considers the Company a member agency. In order to obtain water from Foothill, the Company must fund operating expenses of Foothill. These expenses are not included in the cost of purchased water. Foothill can unilaterally increase the price of its water while curtailing the amount of water delivered. A significant decrease in this delivery would adversely affect the Company's operation.

NOTE 5 - PROVISION FOR INCOME TAXES

The Company is a stock corporation exempt from Federal income tax under IRS code section IRC 501(c)(12). The Company is subject to tax on its net unrelated business income, if any. The provision for income taxes consists of the minimum California Franchise tax of \$800 for each of the years ended December 31, 2024 and 2023, respectively. The Federal and state tax returns are open for examination for the preceding three and four years, respectively

NOTE 6 - RETIREMENT PLAN

The Company maintains a profit sharing plan covering eligible employees. Employees are vested at 20% each year. Annual contributions to the plan are at the discretion of the Board of Directors and are limited to a percentage of eligible employee compensation under relevant Internal Revenue Code sections. For the years ended December 31, 2024 and 2023, the Company contributed \$65,000 for each year.

The Company sponsors a 401(k) for eligible employees providing pre-tax salary deferrals. The Company does not match the employee's contribution.

NOTE 7 - CONTINGENCIES AND COMMITMENTS

The Company is the subject of certain claims and assessments arising from the normal course of its operations. Management of the Company does not expect that the outcome of these matters will materially affect the financial position of the Company.

NOTE 8 – SUBSEQUENT EVENT

Beginning on January 7, 2025, the Eaton Fire destroyed a significant number of structures in Altadena, CA including a large portion of the Company's assets. The Company estimates writing off between \$900k to \$1 million of assets lost due to fire. As of September 3, 2025, the full amount of insurance proceeds related to loss recovery is yet to be determined. The fire eliminated 58% of the homes and or structures that receive water from the Company . The impact of the lost revenues has yet to be determined.

SUPPLEMENTARY SCHEDULE

LINCOLN AVENUE WATER COMPANYDISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
DISTRIBUTION SYSTEM EXPENSES		
Auto and truck expense	\$ 71,225	76,191
Wholesale water supplier	1,252,551	885,506
Special water lease	558,000	-
Miscellaneous	1,858	2,472
Outside labor	122,498	165,201
Repairs	139	1,581
Salaries	637,444	553,561
Supplies	55,997	30,131
Utilities	407,933	449,339
Water quality compliance	306,480	515,290
Total distribution system expenses	<u>\$ 3,414,125</u>	<u>2,679,272</u>
GENERAL EXPENSES		
Business taxes and licenses	\$ 64,172	42,837
Directors' fees and expenses	42,759	41,643
Insurance	418,385	394,406
Legal and professional	70,390	32,235
Membership dues	32,931	19,624
Miscellaneous	(15)	(1,790)
Payroll taxes	89,767	84,066
Retirement plan	65,000	65,000
Property taxes	16,621	16,572
Total general expenses	<u>\$ 800,010</u>	<u>694,593</u>
ADMINISTRATIVE EXPENSES		
Computer billing, hardware and software	\$ 56,881	48,630
Miscellaneous, primarily bank fees	61,513	55,932
Office outside services	33,888	43,792
Postage	31,906	34,966
Repairs and maintenance	7,603	7,288
Salaries, including paid time off	523,237	513,436
Supplies	6,155	5,370
Utilities	25,802	31,154
Total administrative expenses	<u>\$ 746,985</u>	<u>740,568</u>